

**EXECUTIVE SECRETARIAT**

**ROUTING SLIP**

*File*

TO:		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA		X		
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt		X		
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS		X		
19	SEC/CON				
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21					
22					
SUSPENSE		Date			

Remarks

STAT

10 November 1983

Date

3637 (10-81)

## CABINET AFFAIRS STAFFING MEMORANDUM

Date: 11/16/84 Number: ----- Due By: -----  
Subject: Cabinet Council on Economic Affairs Minutes:  
October 16, 25, 30 and November 8

	Action	FYI
<b>ALL CABINET MEMBERS</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Vice President	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>
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Energy	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>
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OPM	<input type="checkbox"/>	<input type="checkbox"/>
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CEQ	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Baker	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Deaver	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Mc Farlane	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Svahn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Chapman	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Executive Secretary for:		
CCCT	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CCEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CCFA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CCHR	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CCLP	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CCMA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CCNRE	<input type="checkbox"/>	<input checked="" type="checkbox"/>

### REMARKS:

Attached for your information are the minutes of the following  
CCEA Planning Meetings:

October 16  
October 25  
October 30  
November 8



### RETURN TO:

☐ Craig L. Fuller  
Assistant to the President  
for Cabinet Affairs

☐ Don Clarey ☒ Tom Gibson ☐ Larry Herbolsheimer  
Associate Director  
Office of Cabinet Affairs

MINUTES  
CABINET COUNCIL ON ECONOMIC AFFAIRS

October 16, 1984  
8:45 a.m.  
Roosevelt Room

Attendees: Messrs. Regan, Baldrige, Brock, Porter, Wright, Niskanen, Burnley, Ford, Knapp, Ballentine, Cicconi, Gibson, Hawley, Herbolzheimer, McCormack, McMinn, Platt, and Li, Ms. McLaughlin, and Ms. Risque.

1. Government Spending and the Private Economy

Mr. Ballentine presented a paper examining trends in the composition of government spending and its effects on the private economy. Federal spending consists of two broad components: purchases of goods and services and transfer payments. Only government purchases of goods and services directly crowd out private spending. While government transfer payments do not directly crowd out private spending, because they only transfer purchasing power from one group to another, transfer payments indirectly crowd out private spending through supply-side effects of taxes and transfer programs. Various studies of the indirect crowding out of tax finance suggest that there is about \$1.25 to \$1.50 less of private GNP for every \$1.00 raised by the government in taxes.

The Council discussed the effects of the budget deficit on the economy. It noted that the deficit has not appeared to crowd out business fixed investment. However, financing of the deficit has significant distortionary effects on incentives to save and work. The Council discussed the differential impacts of financing the deficit through taxation or borrowing.

The Chairman Pro Tempore requested that an interagency working group comprising representatives from the Treasury, Office of Management and Budget, Council of Economic Advisers, and Commerce prepare a paper evaluating the effect on the economy of different means of financing the budget deficit and further analyzing the effects of government spending on the economy.

2. Legislative Update

Mr. Brock reviewed the provisions in the trade bill recently passed by the Congress. On the whole, the bill includes elements the Administration sought or that are acceptable to

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us. There are, however, two troubling provisions. First, the bill included a sense of the Congress resolution that the President should negotiate voluntary restraint agreements on copper production. Second, the bill requires the executive branch to monitor individual steel company compliance with reinvestment requirements, which would be difficult to do and could lead to court challenges. The Council noted that Mr. Brock was successful in deleting numerous protectionist provisions in conference and congratulated him on his efforts.

Secretary Baldrige reviewed various developments regarding the Export Administration Act that was not passed by the Congress. Difficult provisions included import controls and COCOM licensing.

Secretary Regan reviewed developments on financial institution legislation. The failure of the Congress to pass legislation closing the nonbank bank loophole means that the Comptroller of the Currency will have to start processing nonbank bank applications.

In addition, Mr. Regan noted that because the Senate delayed passage of the debt ceiling legislation, the Treasury will have to reschedule debt in four weeks that it had planned to reschedule over seven weeks. The delay is expected to result in an additional \$1 billion cost to taxpayers over the life of the rescheduled debt.

MINUTES  
CABINET COUNCIL ON ECONOMIC AFFAIRS

October 25, 1984  
8:45 a.m.  
Roosevelt Room

Attendees: Messrs. Regan, Ford, Porter, Wright, Niskanen, Burnley, Jones, Cicconi, Gibson, Hawley, Healey, McCormack, McMinn, Platt, and Li, Ms. McLaughlin, Ms. Risque, and Ms. Horner.

1. Recent Trends in the Economic Pursuits and Status of Women

Mr. Jones presented a review of the impact of demographic shifts on the economic status of women. Today more women are in the labor force than ever before. In particular, the proportion of working mothers with young children is increasing. Women are more likely to work full-time during the entire year. More women are enrolling in higher education. For example, the proportion of law degrees awarded to women increased from 5 percent in 1970 to 30 percent in 1980.

In the aggregate, there are significant wage differences between men and women. For year-round, full-time workers, the median income for men in 1983 was \$22,000, while that for women was \$14,480. After adjusting for factors such as occupation, experience, and continuous employment, the differences are significantly less.

Mr. Jones noted in particular the disparity in the economic status of households headed by females and that of other households. The poverty rate of households headed by black females was over 50 percent in 1983, while that of other black households was under 20 percent. The poverty rate for households headed by white females was slightly under 30 percent, while that for other white households was under 10 percent. In addition, a substantially higher proportion of households headed by females than other households receive transfer payments from programs such as Aid to Families with Dependent Children, food stamps, public housing, and medicaid.

Mr. Niskanen presented data regarding the wage gap between men and women. He pointed out that when various factors are adjusted, the wage differences between men and women narrow

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significantly. For example, the female/male ratio of weekly earnings for full-time workers is 96 percent for the 16-19 age group, while that ratio is 67 percent for the 55-64 age group. Reasons that could explain why women earn less than men include: 1) women classified as working full-time work fewer hours than men classified as working full-time (less overtime and moonlighting); 2) older women have less labor market experience and less tenure in their current job than men; and 3) women tend to work in occupations that pay less than those in which men work.

An unexplained portion of the wage gap does not necessarily imply discrimination since it could be due to other variables. Conversely, full explanation of the wage gap does not rule out discrimination. Mr. Niskanen noted that the most important role for government is to ensure that men and women have equal access to acquiring skills and that there are no artificial barriers to entry into occupations for men and women.

The Council discussed private and public programs for child care. It noted the difficult problems entailing substantial social and economic costs faced by families with female headed households.

MINUTES  
CABINET COUNCIL ON ECONOMIC AFFAIRS

October 30, 1984  
8:45 a.m.  
Roosevelt Room

Attendees: Messrs. Regan, Brock, Ford, Niskanen, Darman, Porter, Wright, Lyng, Brown, Burnley, Boggs, Poole, Sprinkel, Ballentine, Cicconi, Fitzwater, Gibson, Hawley, Herbolsheimer, Knapp, McMinn, Platt, and Li, and Ms. McLaughlin.

1. Financial Market Developments

Mr. Poole presented a paper discussing real interest rates and reviewing the reasons why they have been high in recent years. It is important to distinguish between the ex ante real interest rate, which is relevant for investment and savings decisions, and the ex post real interest rate, which is relevant for measuring investment outcomes. The five year average ex ante real interest rate for 52-week Treasury bills has increased from 0.52 in 1975-1979 to 4.34 in 1980-1984. These rates have been at a level for a long enough period that they cannot be due to monetary or random factors.

While the federal budget deficit has reduced somewhat the supply of funds in the credit markets, the increase in the demand for funds as a result of increased investment has played a more important role in raising the real interest rate. Business fixed investment and inventories have experienced unusually strong growth, while other sources of investment have expanded at a healthy pace. This increased investment has resulted from a reduction in excess capacity, rising productivity, a more stable regulatory environment, major reductions in the tax rate on earnings from new business investment, and the decline in inflation.

The Council discussed the different impacts on investment of government purchases of goods and services and government transfer payments. It also discussed the impact of the 1981 business tax rate reductions on investment.

Mr. Ballentine presented a paper reviewing international capital flows. While traditional analysis holds that shifts in the current account determine the value of a currency, recent experience suggests that net capital flows are now the determining factor. There are both increased gross

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inflows of foreign investment into the U.S. and decreased gross outflows of U.S. investment abroad because U.S. and foreign investors often face the same investment opportunities. However, from a long-term perspective, the gross inflows of capital in 1981-1984 were high and the gross outflows of capital in 1983 were low relative to their levels in the late 1970's. It appears that the very large gross inflows of foreign investment have played a more important role than declining gross outflows for the change in net capital flows.

The Council discussed the reasons for the increasing inflow of foreign capital into the U.S. It discussed whether capital flowing to the U.S. from Europe is from the region initially or transferred from other regions.

Mr. Sprinkel presented a paper reviewing recent developments in the economy, interest rates, and monetary policy. Short-term interest rates have declined in recent months. The prime rate has been cut several times, the 90-day Treasury bill rate has declined by about 150 basis points since August, and the Federal funds rate has fallen substantially. Long-term interest rates have fallen as well by about 120-180 basis points from their June peaks.

Mr. Sprinkel attributed this decline to four principal developments:

1. Private credit demands have declined;
2. The deceleration in the money growth rate has eased inflationary expectations;
3. The market has apparently eased its concerns about the instability of the banking sector; and
4. The substantial decline in the Federal funds rate has encouraged the view that the Federal Reserve has adopted an easier policy stance.

Mr. Sprinkel argued that while we obviously welcome the favorable developments in interest rates, there are reasons to remain cautious. First, the Federal Reserve should be careful to avoid an unnecessarily prolonged deceleration in money growth. Second, the Federal Reserve should allow



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market forces to play a greater role in determining the Federal funds rate. Finally, it is important to focus on the long-term trend of money growth, which is more important than the short-term trend in determining the inflation rate.

The Council discussed the recent growth of money supply and the target ranges for money growth.

MINUTES  
CABINET COUNCIL ON ECONOMIC AFFAIRS

November 8, 1984  
8:45 a.m.  
Roosevelt Room

Attendees: Messrs. Regan, Block, Baldrige, Brock, Ford, Niskanen, Porter, Wright, Wallis, Burnley, Ballentine, Gibson, Haraf, Hawley, Johnson, Knapp, Platt, and Li.

1. The 1985 Economic Report

Mr. Niskanen presented a summary outline of the 1985 Economic Report. The Council of Economic Advisers has already begun work on the Report and expects to complete first drafts by Thanksgiving.

The first chapter will review the economic record of the last four years, noting that the economy has moved from a period of high inflation and low productivity to one of low inflation and higher productivity. It will also present the economic outlook for 1985-1990.

The second chapter will review the relationships between the economy and the Federal budget. It will also discuss various budget process issues, such as capital budgeting, accrual vs. cash budgets, the congressional budget process, line-item veto authority, and the balanced budget constitutional amendment.

The third chapter will focus on international economic policy. Although it will address international financial issues, it will focus primarily on U.S. trade policy. There will be discussion of the need and prospects for a new round of trade negotiations.

The fourth chapter will address the economics of health care. It will analyze the demand for and supply of medical care and the relationship between health status and medical care. It will also analyze the role that government has played in increasing the demand for and price of health care.

The fifth chapter will review the economic status of the elderly. It will analyze the demographic trends, the sources of financial support for the elderly, and major public policies affecting the economic status of the elderly.

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The last chapter will address the organization of American industry. It will review recent changes in business organization, corporate governance and control, and government policies affecting organization, such as antitrust laws, securities regulation, and tax policy.

The Council discussed whether the Report might devote specific chapters to the current employment situation or antitrust law. It noted that the employment situation should improve further because of demographic shifts, for example, the decline in the number of teenagers. The Council suggested that the chapter addressing international economic policy note how U.S. economic policy has served as a model for improving the climate of economic policy abroad.

2. The Determinants of Total Federal Expenditures

Mr. Niskanen also presented a paper exploring the primary conditions affecting total Federal expenditures from World War II through 1980, the effect of the levels of prior debt or current tax receipts on total Federal expenditures, and the degree to which determinants of total Federal expenditures from World War II through 1980 explain the level of expenditures since 1980.

After running several regressions, Mr. Niskanen concluded that over the time period of 1948 to 1980:

- o An increase in relative GNP per capita strongly increased the Federal expenditure share of GNP.
- o An increase in the unemployment rate by 1 percentage point increased the Federal expenditure share of GNP by about 0.8 percentage points.
- o Changes in the number of armed services personnel overseas accounted for a substantial proportion of the variance in total Federal expenditures.

He also concluded that considering the levels of prior debt and the current level of tax receipts does not significantly increase the explanatory power of the model and that these variables are not significant statistically. However, the results suggest that an increase in the level of prior debt may have a constraining effect on future Federal expenditures over the short-term. Finally, he concluded that the model based on data from 1948 to 1980 relatively accurately predicts total Federal expenditures since 1980.